

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
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P 232120Z AUG 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 8453
INFO AMCONSUL MONTREAL
AMCONSUL TORONTO
AMCONSUL QUEBEC POUCH

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E.O. 11652: N/A
TAGS: ETRD, ECON, CA
SUBJECT: DISCUSSION OF AUTO SECTOR WITH QUEBEC INDUSTRY
MINISTER

REFS: A. OTTAWA 4000; B. STATE 212469

1. AMBASSADOR MET ON AUGUST 22 WITH RODRIQUE TREMBLAY, QUEBEC MINISTER OF INDUSTRY AND COMMERCE, AT LATTER'S REQUEST TO DISCUSS CANADIAN AUTO SECTOR AND OPERATION OF AUTO PACT. TREMBLAY'S PURPOSE APPEARS TO HAVE BEEN TO DETERMINE PROBABLE U.S. REACTION IF GM WERE TO ACCERT INVESTMENT SUBSIDY OFFERED BY QUEBEC GOVERNMENT AND GOC DEPARTMENT OF REGIONAL ECONOMIC EXPANSION (DREE). AS EXPECTED, TREMBLAY ALSO SOUGHT ASSURANCE THAT U.S. WOULD NOT TAKE HARDER LINE ON DREE GRANT IN QUEBEC THAT IT DID ON SUBSIDY TO FORD INVESTMENT IN ONTARIO.

2. DRAWING ON REF B., AMBASSADOR TOLD TREMBLAY THAT
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SUBSIDIES FROM WHATEVER GOVERNMENTAL SOURCE DISTORTED INVESTMENT AND RISKED IMPOSITION OF COUNTERVAILING DUTIES. WHILE A DREE SUBSIDY MIGHT BE DESIGNED TO INFLUENCE DOMESTIC DISTRIBUTION OF INVESTMENT, A COUNTERVAILING DUTY INVESTIGATION WOULD FOCUS ON INTERNATIONAL EFFECTS OF SUBSIDY RATHER THAN ITS INTENT. AMBASSADOR SAID THAT, IN TERMS OF U.S. COUNTERVAILING DUTY LAW, GM AND FORD CASES WOULD

BE CONSIDERED SEPARATELY AND EACH JUDGED ON ITS MERITS.

HOWEVER, HE NOTED THAT SUBSIDY TO GM WOULD ADD TO RISK THAT CONGRESS WOULD REACT TO APPARENT PROLIFERATION OF GOC SUBSIDIES.

3. TAKING QUEBEC SEPARATIST LINE, TREMBLAY ARGUED THAT POSSIBLE SUBSIDY TO GM SHOULD NOT BE VIEWED AS NEW DISTORTION OF MARKET FORCES. SUBSIDY WOULD HELP CORRECT DISTORTION CREATED BY AUTO PACT, WHOSE OPERATION HAS BENEFITTED ONTARIO AT EXPENSE OF QUEBEC. TREMBLAY NOTED IN PASSING THAT QUEBEC GOVERNMENT IS ALSO WILLING TO HELP FINANCE INVESTMENT IN PROVINCE BY CHRYSLER AND THAT HE WOULD BE MEETING WITH CHRYSLER OFFICIALS IN NEXT FEW WEEKS.

4. AMBASSADOR CORRECTED TREMBLAY'S BELIEF, APPARENTLY BASED ON RECENT ONTARIO STUDY OF OPERATION OF AUTO PACT, THAT PACT CALLED FOR BALANCED TRADE AND INVESTMENT. QUESTION OF GATT PROTECTION FOR REGIONAL SUBSIDIES (PARA. 4, REF B.) DID NOT ARISE. PLACKE

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